

Chapter 8
Fixed Fee

Fee is the amount of profit allowed by an agreement. In a cost plus fixed fee agreement, it is a set dollar amount that is billed monthly by the estimated percentage of work completed. In an all-inclusive hourly rate agreement, fee is a component of the hourly billing rate.

The auditor will review fee paid (when not included in an all-inclusive hourly rate) to determine that the firm has received compensation based on the terms of the agreement and the progress billing to date.

The amount of fee is determined during negotiations between the consultant and the contracting office. WSDOT uses a formula to calculate fees for each job. The formula takes into account job complexity, difficulty, risk, consultant investment in equipment, number of subconsultants, and other factors (see the following pages).

By policy, WSDOT limits fee to a range of 17 to 35 percent of direct labor. By policy, FHWA limits fee to a range of 10 to 15 percent of direct labor plus overhead on federally funded projects.

For additional information on this subject, talk to the contracting officer or the consultant liaison person handling the proposed or ongoing agreement.

Fee Including Profit

1. Fee should be established as a dollar amount after considering:
 - a. Degree of risk.
 - b. Nature of the work to be performed.
 - c. Joint venture responsibilities.
 - d. Extent of the consultant's investment.
 - e. Number and amount for subconsultants.
 - f. Other criteria such as discussed in 48 CFR 31.105.

The final step is to determine a reasonable profit.

You may use a "weighted guideline method" of computing fee.

This is a technique that will ensure consideration of the relative values of the appropriate factors in the establishment of a fee during negotiations and provide documentation of how the fee was determined.

2. In negotiating fee as an element of price, a reasonable fee shall be negotiated or determined for each agreement by using the following procedure as a guide.

Weighted Guidelines

<u>Factor</u>	<u>Rate</u>	<u>Weight</u>	<u>Value</u>
Degree of Risk	25		
Relative Difficulty of Work	20		
Size of Job	15		
Period of Performance	15		
Contractor's Investment	5		
Assistance by the State	5		
Other Criteria	5		
Subconsultants	<u>10</u>		
	100		

3. Based on the circumstances of each agreement, each of the above factors shall be weighted from .17 to .35 as indicated below. The value shall be obtained by multiplying the rate by the weight. The value column, when totalled, indicates the fair and reasonable fee percentage of direct labor costs for the agreement.

Degree of Risk — Where the design involves no risk or the degree of risk is very small, the weighting should be .17; as the degree of risk increases, the weighting should be increased up to a maximum of .35. Agreements with options will have, generally, a higher weighted value than agreements without options for which quantities are provided. Other things to consider: the portions of the design to be done by subconsultants, nature of design, relationship of project estimated costs to realistic estimated costs, responsibility for design, reasonableness of negotiated costs, amount and type of labor included in costs, whether the negotiation is before or after performance of work, amount of principal time required.

Relative Difficulty of Design — If the design is most difficult and complex the weighting should be .35 and should be proportionately reduced to .17 for the simplest of jobs. This factor is tied in, to some extent, with the degree of risk. Some things to consider: the nature of the design; by whom it is to be done, i.e., subcontractors, consultants; what is the time schedule; rehabilitation work or new work.

Size of Job — All agreements with estimated total costs less than \$50,000 may be weighted at .35. Agreements estimated between \$50,000 and \$500,000 may be proportionately weighted from .35 to .21. Agreements from \$500,000 to \$1,000,000 may be proportionately weighted from .21 to .17 and work in excess of \$1,000,000 at .17. It should be noted that the magnitude of the job effects better control of fixed expenses.

Period of Performance — Agreements that extend in excess of 23 months are to be weighted at .35. Agreements of lesser duration are to be proportionately weighted to a minimum of .17 for work not to exceed 60 days. No weight where additional time is not required. This basically refers to changes that can be done within the original contract time. Exposure over long time jobs creates more chance of loss and less revenue to recover fixed expenses.

Contractor's Investment — To be weighted from .17 to .35 on the basis of below average, average, and above average. Things to consider: amount of subcontracting, government-furnished items, surveys, soil tests, methods of making progress payments, etc.

Assistance by the State — To be weighted from .35 to .17 on the basis of average to above average. Things to consider: existing design or plans, mapping, quantities, surveys, geotech information, etc.

Other Criteria — To be weighted from .35 to .17 on the basis of allowable cost to the consultant.

Subconsultants — To be weighted in proportion to the amount of subconsultants. Where 40 percent or more of the design is to be subbed out, the weighting is to be .35 and such weighting proportionately decreased to .17 where all the design is performed by the consultant's own forces.

When considered necessary because of unusual circumstances or local conditions, the range of weight may be increased above 35 if supported by adequate justification and approved by the Assistant Secretary, Environmental and Engineering Service Center.

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Consultant Fee Computation

Agreement Y-

Project: _____

Consultant: _____

Estimated Design Fee: \$ _____

Weighted Guidelines

Factor	Rate		Weight		Value
Degree of Risk	<u>25</u>	X	<u> </u>	=	<u> </u>
Relative Difficulty of Work	<u>20</u>	X	<u> </u>	=	<u> </u>
Size of Job	<u>15</u>	X	<u> </u>	=	<u> </u>
Period of Performance	<u>15</u>	X	<u> </u>	=	<u> </u>
Contractor's Investment	<u>5</u>	X	<u> </u>	=	<u> </u>
Assistance by the State	<u>5</u>	X	<u> </u>	=	<u> </u>
Other Criteria	<u>5</u>	X	<u> </u>	=	<u> </u>
Subcontracting	<u>10</u>	X	<u> </u>	=	<u> </u>
Total	<u>100</u>			=	<u> </u> %

Prepared By: _____

Date: _____